

AUDITED FINANCIAL STATEMENTS

LOUTIT DISTRICT LIBRARY

June 30, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Loutit District Library	County Ottawa
Fiscal Year End June 30, 2006	Opinion Date September 26, 2006	Date Audit Report Submitted to State 11-16-06	

We affirm that:

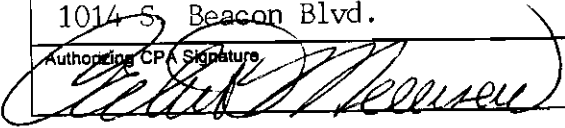
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Calvin D. Meeusen, C.P.A., PLLC		Telephone Number (616) 846-6210	
Street Address 1014 S. Beacon Blvd.		City Grand Haven	State MI
		Zip 49417	
Authorizing CPA Signature 		Printed Name CALVIN D. MEEUSEN	License Number 6731

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INDEPENDENT AUDITOR'S REPORT

Loutit District Library
Grand Haven, Michigan

I have audited the financial statements of the governmental activities of the Loutit District Library, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Loutit District Library's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements listed in the table of contents present fairly in all material respects, the financial position of the governmental activities of the Loutit District Library at June 30, 2006, and the results of the operations of such activities for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, I did not audit the information and express no opinion on it.

My report of comments and recommendations has been submitted under date of September 26, 2006.

 Calvin D. Meeusen C.P.A. PLLC

September 26, 2006

Loutit District Library
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Using this Management's Discussion and Analysis

This annual report is intended to supplement the District Library's financial statements. This is the third year that the financial statements have conformed with the GASB 34 accounting pronouncement. The Statement of Net Assets and the Statement of Activities provide information about the activities of the District Library and present a longer-term view of the District Library's finances. Fund financial statements (i.e. the Statement of Governmental Fund Revenue, Expenditures and changes in Fund Balance and the Governmental Fund Balance Sheet) tell how library services were financed in the short-term, as well as what remains for future spending.

The District Library as a Whole

The District Library's total net assets are \$5,425,879 as of June 30, 2006. Unrestricted net assets, which represent net assets that can be used to finance day to day operations, comprise 23% of that total. The current level of unrestricted net assets for our governmental activities stands at \$1,230,751 or about 82% of current year operating expenditures. Board restricted net assets of \$1,264,837 are attributable to the Capital Projects Fund. The balance of net assets (\$2,930,291) are capital assets net of related debt.

Table 1
Loutit District Library Net Assets

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Current Assets	\$ 2,678,866	\$ 2,424,735
Noncurrent Assets	-	-
Capital Assets net of accumulated depreciation	<u>3,501,278</u>	<u>1,872,837</u>
Total Assets	6,180,144	4,297,572
Current Liabilities	223,006	167,763
Long-Term Debt Outstanding	<u>531,259</u>	<u>604,249</u>
Total Liabilities	754,265	772,012
Net Assets		
Invested in Capital Assets (Net of Related Debt)	2,930,291	1,221,597
Board Restricted	1,264,837	1,075,413
Unrestricted	<u>1,230,751</u>	<u>1,228,550</u>
Total Net Assets	<u>\$5,425,879</u>	<u>\$3,525,560</u>

The District Library's net assets continue to remain healthy. The District Library has enough cash to fund normal operating expenses for the next twelve months.

Loutit District Library
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Governmental Activities

The District Library's total revenues in the General Fund were \$1,965,502, an increase over the prior year of \$129,702 or 7% over the prior year. Property tax revenue from the district library millage, which contributes 85% of the total revenue, increased by 5% over last year. Penal fine income increased by 7% from the prior year.

General Fund expenditures increased this year, largely due to increased personnel and maintenance costs and an increase in the amount transferred to the Capital Projects Fund.

Capital Projects Fund expenditures for the past year were primarily related to costs attributable to the anticipated library expansion project. Our current building and parking lot were purchased from the City of Grand Haven in August 2005. We paid a token \$1 for the building and recorded a \$1.4 million in-kind contribution from the City, the deemed fair market value of the building and underlying land. We incurred pre-construction costs, mostly for architectural engineering costs, legal work and various costs associated with property acquisition. These expenditures have been capitalized as being associated with the acquisition of a capital asset. We have retained The Troyer Group of Mishawaka, Indiana as our architect and they have provided several design alternatives to the District Library Board. The Board approved a building plan to present to the public in September, 2006.

Table 2
Loutit District Library Changes in Net Assets
Governmental Activities

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
<u>Revenues</u>		
General		
Property taxes	\$1,662,700	\$1,578,608
Fines and forfeits	156,212	146,008
Contributions	29,995	-
Contributions - In kind (Note J)	1,400,000	-
Investment earnings	126,399	72,915
Miscellaneous	26,762	56,476
Total	3,402,068	1,854,007
<u>Expenses</u>		
Wages and benefits	865,107	816,801
Books and magazines (Note I)	19,063	8,978
Supplies	34,451	32,608
Lakeland Library Cooperative	40,496	38,936
Building and grounds	135,887	121,453
Professional fees	27,393	29,402
Capital Outlay	-	79,378
Depreciation	213,504	194,524
Foregone pledges	-	401,553
Write-off of pre-construction costs	-	99,088

Loutit District Library
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Expenses-continued

Transfers to other libraries	39,935	35,572
Refunds	-	1,382
Other	125,913	103,784
Total	<u>1,501,749</u>	<u>1,963,459</u>
 Increase (decrease) in Net Assets	 1,900,319	 (109,452)
 Net Assets at July 1	 <u>3,525,560</u>	 <u>3,635,012</u>
 Net Assets at June 30	 <u>\$5,425,879</u>	 <u>\$3,525,560</u>

The District Library's Funds

Budget comparison schedules for the District Library's funds are on pages 20, 21 and 22, following the notes to the financial statements. The District Library creates funds as needed to manage its revenues for specific purposes as well as to account for certain activities.

The District Library's largest fund for the year ended June 30, 2006 is the General Fund. The General Fund receives the District Library's general revenues and pays the general operating expenditures. There is also a Capital Projects Fund which records the activities attributable to the planning of a building project. The Debt Service Fund records the activities concerning the payment of general obligation debt principal and interest.

General Fund Budgetary Highlights

Over the course of the year, the District Library Board amended the budget to take into account events during the year. The major amendments in the General Fund reflected increases in revenue items (including fines, interest, and donations) and a decrease in property taxes and more than anticipated expenditures in a number of areas, the most significant of which were library supplies, professional fees and other expenses.

Overall, District Library expenditures stayed below budget. The General Fund's fund balance increased by \$13,389 for a total of \$1,275,201 at June 30, 2006.

Capital Assets and Debt Retirement

At June 30, 2006 the District Library had \$5,117,067, before accumulated depreciation of \$1,615,780, invested in a broad range of capital assets - land, building improvements, books and other collections and furniture and equipment. We continue to pay down our general obligation debt for the land purchase according to schedule.

Loutit District Library
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2006

Economic Factors and Next Year's Budgets

The District Library's budget for the next fiscal year projects property taxes, which is the largest source of revenue, to increase. State aid will probably decrease while penal fines should remain steady. Personnel costs, which remain the largest expenditure, will continue to increase slightly with the possible addition of one clerical position. The purchase of our building and adjacent property, the continued changes in the maintenance responsibilities of the building and the separation of utilities shared with the Community Center will affect the expenditures for Building and Grounds.

As the District Library Board moves ahead with the proposed building project, expenditures will occur that have not been anticipated in the budget including those for a capital campaign and bond election. On July 18, 2006 the District Library purchased property across the street from the current building for future parking. Funds are available in the Capital Projects Fund fund balance to cover the unanticipated costs.

Contacting the District Library's Management

This financial report is intended to provide our citizens, taxpayers, patrons and other interested parties with a general overview of the Library's finances and to show the District Library's accountability for the revenue it receives. If you have questions about this report or need additional information, we welcome you to contact Sandie Knes, Library Director, at (616) 842-5560, extension 212.

Loutit District Library
Governmental Funds Balance Sheet/Statement of Net Assets
June 30, 2006

	Modified Accrual Basis			Full Accrual Basis
	General Fund	Capital Projects Fund	Adjustments	Statement of Net Assets
Assets				
Cash and cash equivalents	\$1,380,350	\$1,286,022	\$ -	\$2,666,372
Accounts receivable	12,494	-	-	12,494
Capital assets (net) (Note C)	-	-	3,501,278	3,501,278
Total Assets	\$1,392,844	\$1,286,022	\$3,501,278	\$6,180,144
Liabilities				
Accounts payable	\$ 57,047	\$ 21,185	\$ -	\$ 78,232
Internal balances	-	-	-	-
Accrued liabilities	60,596	-	-	60,596
Long-term liabilities				
Note payable-due within one year (Note E)	-	-	84,178	84,178
Note payable-due after one year (Note E)	-	-	486,809	486,809
Accumulated employee benefits (Note A 7)	-	-	44,450	44,450
Total Liabilities	\$ 117,643	\$ 21,185	\$ 615,437	\$ 754,265
Fund Balance/Net Assets				
Fund Balances-Unreserved				
Board Restricted - Capital Improvements	-	1,264,837	(1,264,837)	-
Unrestricted	1,275,201	-	(1,275,201)	-
Total Fund Equities	1,275,201	1,264,837	(2,540,038)	-
Total Liabilities and Fund Balance	\$1,392,844	\$1,286,022		
Net Assets				
Invested in capital assets-net of related debt			2,930,291	2,930,291
Unreserved				
Board Restricted			1,264,837	1,264,837
Unrestricted			1,230,751	1,230,751
Total Net Assets			5,425,879	5,425,879

The accompanying notes are an integral part of this statement.

Loutit District Library
Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund
Balance/Statement of Activities
Year ended June 30, 2006

	Modified Accrual Basis		
	General Fund	Capital Projects Fund	Debt Service Fund
Revenues:			
Property taxes	\$ 1,662,700	\$ -	\$ -
State grants	24,599	-	-
Interest and rentals	89,833	36,566	-
Contributions	29,995	486	-
Contributions - In-kind (Note J)	-	1,400,000	-
Fines and forfeits	156,212	-	-
Other revenue	2,163	-	-
TOTAL REVENUES	1,965,502	1,437,052	-
Expenditures:			
Salaries and wages	642,697	-	-
Employee benefits	211,222	-	-
Books and magazines (Note I)	134,111	-	-
Library supplies	34,451	-	-
Lakeland Library Cooperative	40,496	-	-
Equipment maintenance	11,308	-	-
Buildings and grounds	135,887	-	-
Professional fees	27,393	-	-
Insurance	18,316	-	-
Telephone	2,491	-	-
Printing and publishing	15,247	-	-
Tax collection fees	6,113	-	-
Postage	10,579	-	-
Pre-construction costs	-	87,885	-
Capital outlay	28,241	212,143	-
Capital outlay - In-kind (Note J)	-	1,400,000	-
Depreciation	-	-	-
Professional development	9,028	-	-
Memberships and dues	4,038	-	-
Transfers to other libraries	39,935	-	-
Miscellaneous	15,413	121	-
Debt service:			
Principal	-	-	80,253
Interest	-	-	31,846
TOTAL EXPENDITURES	1,386,966	1,700,149	112,099
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	578,536	(263,097)	(112,099)
Other financing sources (uses)			
Operating transfers in	-	453,048	112,099
Operating transfers out	(565,147)	-	-
Total other financing sources (uses)	(565,147)	453,048	112,099
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	13,389	189,951	-
Fund balances - July 1	1,261,812	1,074,886	-
Fund balances - June 30	\$ 1,275,201	\$ 1,264,837	\$ -

The accompanying notes are an integral part of this statement.

Full Accrual Basis

<u>Adjustments</u>	<u>Statement of Activities</u>
\$ -	\$ 1,662,700
-	24,599
-	126,399
(486)	29,995
-	1,400,000
-	156,212
-	2,163
<u>(486)</u>	<u>3,402,068</u>
-	642,697
11,188	222,410
(115,048)	19,063
-	34,451
-	40,496
-	11,308
-	135,887
-	27,393
-	18,316
-	2,491
-	15,247
-	6,113
-	10,579
(87,885)	-
(240,384)	-
(1,400,000)	-
213,504	213,504
-	9,028
-	4,038
-	39,935
1,413	16,947
(80,253)	-
-	31,846
<u>(1,697,465)</u>	<u>1,501,749</u>
1,696,979	1,900,319
-	565,147
-	<u>(565,147)</u>
-	-
1,696,979	1,900,319
<u>1,188,862</u>	<u>3,525,560</u>
<u>\$ 2,885,841</u>	<u>\$ 5,425,879</u>

Loutit District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Reporting Entity

The Loutit District Library (District Library) was established on February 24, 1999, pursuant to Act No. 24 of the Public Acts of 1989 by the participating municipalities of Grand Haven Charter Township, City of Grand Haven, City of Ferrysburg, Robinson Township, and Grand Haven Area Public Schools. The District Library provides library services to the general public.

2. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Loutit District Library.

The Statement of Activities demonstrates the degree to which the direct expenses of providing library services are offset by the revenues designated to fund those services. All of the revenues of the General Fund of the District Library are intended to pay for those direct expenses, except as designated by the Library Board.

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Collections from the 2005 Summer and Winter property taxes are considered to be revenues of the year ended June 30, 2006. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

Property taxes, pledged contributions, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation-Cont.

recognized as revenue of the current fiscal period, when applicable. All other revenue items are considered to be available only when cash is received by the District Library.

The various funds are presented in these financial statements as follows:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the district library.

Capital Projects Fund - This fund is used to account for financial resources to be used for the acquisition and/or construction of major capital facilities.

Debt Service Fund - This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

4. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the Statement of Net Assets column in the government-wide financial statements. Capital assets are defined by the District Library as assets with an initial individual cost of \$1,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Building	50 years
Building improvements	10 - 20 years
Collections	3 - 20 years
Equipment	7 years
Furniture and Fixtures	10 years

5. Budgets and Budgetary Accounting

The District Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. On or about June 1, the District Library submits to the general public a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting-Cont.

- b. A public hearing is conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally enacted through passage of a resolution.
- d. The District Library director is authorized to transfer budgeted amounts within funds within any activities, except for certain activities which require Library Board authorization.
- e. The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles.
- f. Appropriations for all funds lapse at the end of the fiscal year.
- g. The budget has been adopted on a total fund basis.

Budgeted amounts are as originally adopted and as amended by the District Library Board as of June 30, 2006.

6. Property Taxes

Property taxes when levied attach as an enforceable lien on property. Summer taxes are levied on July 1 and are payable through September 14. Winter taxes are levied on December 1 and are payable through February 14. The property taxes are billed and collected by various municipalities, which then remit the District Library's designated portion on a semi-monthly basis. The District Library levied a tax of .9788 mills in the participating municipalities.

7. Compensated Absences

District Library employees earn vacation and sick leave in varying amounts based on length of service. Unused vacation pay and sick leave may accumulate and be carried over to a subsequent year, subject to restrictions. Management estimates that its current liability for unpaid vacation pay, sick leave and personal time is \$41,960 at June 30, 2006.

The noncurrent portion of accumulated sick pay liability is reflected under long-term liabilities in the Statement of Net Assets. The amount is \$44,450 as of June 30, 2006.

8. Encumbrances

Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the District Library.

NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2006

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

10. Risk Management

The Loutit District Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries, as well as medical benefits provided to employees. The District Library has purchased commercial insurance for medical benefits claims and for claims relating to general liability, excess liability, physical damage (equipment, buildings and contents) and worker compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

11. Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. All non-cash donations are recorded at their estimated fair market value as of the date of the contribution.

12. Cash Equivalents

The District Library considers all short-term investments with an original maturity of three months or less to be cash equivalents.

NOTE B - CASH

The District Library's cash at June 30, 2006 is reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>		
	General	Capital	
	Fund	Projects	Total Primary
		Fund	Government
Cash	\$1,380,350	\$1,286,022	\$2,666,372

At June 30, 2006 the carrying amount of the District Library's deposits was \$2,666,372. The bank balance of the District Library's deposits was \$2,699,822. Of the bank balance, \$400,000 was covered by federal depository insurance and the remainder was uninsured.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE C - CAPITAL ASSETS

Capital asset activity of the District Library for the year ended June 30, 2006 was as follows:

	Balance July 1 2005	Addi- tions	Dele- tions	Balance June 30 2006
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$1,061,845	\$409,648	\$ -	\$1,471,493
Building (in progress)	<u>19,002</u>	<u>87,885</u>	<u>-</u>	<u>106,887</u>
	1,080,847	497,533	-	1,578,380
Capital Assets Being Depreciated				
Building	-	1,202,495	-	1,202,495
Building improvements	100,360	2,788	-	103,148
Collections	1,848,758	115,048	67,049	1,896,757
Equipment	178,080	25,453	7,303	196,230
Furniture and Fixtures	<u>140,057</u>	<u>-</u>	<u>-</u>	<u>140,057</u>
Subtotal	<u>2,267,255</u>	<u>1,345,784</u>	<u>74,352</u>	<u>3,538,687</u>
Less Accumulated Depreciation for				
Building	-	23,333	-	23,333
Building improvements	12,843	6,430	-	19,273
Collections	1,207,710	166,883	67,049	1,307,544
Equipment	116,094	16,607	5,931	126,770
Furniture and Fixtures	<u>138,618</u>	<u>251</u>	<u>-</u>	<u>138,869</u>
Subtotal	<u>1,475,265</u>	<u>213,504</u>	<u>72,980</u>	<u>1,615,789</u>
Net Capital Assets Being Depreciated	<u>791,990</u>	<u>1,132,280</u>	<u>1,372</u>	<u>1,922,898</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$1,872,837</u>	<u>\$1,629,813</u>	<u>\$ 1,372</u>	<u>\$3,501,278</u>

NOTE D - PENSION PLANS

The District Library participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all eligible employees of the District Library. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the system at 1134 Municipal Way, Lansing, MI 48917.

Loutit District Library

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE D - PENSION PLANS - CONTINUED

Employer contributions are not required until the funded ratio is at a level below 110%. As of December 31, 2005, the funded ratio for the District Library was at 83.5%. Employer contributions at 12.03% and 11.19% of current monthly payroll are scheduled to commence in July, 2006 and 2007, respectively in order to bring the funded ratio levels up to the mandated ratio. These amounts were obtained from the actuarial reports provided by MERS dated December 31, 2004 and 2005.

For the year ended June 30, 2006, the District Library was required to make employer contributions at 13.72% of monthly payrolls to MERS totalling \$61,315. The required contribution was determined by actuarial valuation at December 31, 2004, using the entry age normal cost method. The actuarial assumptions include (a) 8% investment rate of return (net of administrative expenses) (b) merit and longevity salary increases ranging from 0% to 8.4% per year and 4.5% per year cost-of-living adjustments. The actuarial value of MERS assets is determined using techniques that smooth the effects of short term volatility in the market value of investments over a five-year period. The District Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a 30 year period.

Three Year Trend Information as of December 31 (date of the actuarial valuation report) follows:

	2003	2004	2005
Annual Pension Cost (paid through December 31)	\$ 27,110	\$ 53,308	\$ 56,207
Percentage of APC Contributed	100	100	100
Net Pension Obligation	\$ 0	0	0
Actuarial Value of Assets	\$ 499,658	592,395	689,975
Actuarial Accrued Liability (AAL)	\$ 618,976	703,197	825,948
Unfunded AAL (UAAL)	\$ 119,318	110,802	135,973
Funded Ratio	80.7	84.2	83.5
Covered Payroll	\$ 404,889	453,631	467,994
UAAL as a Percentage of Covered Payroll	29.6	24.4	29.1

Deferred Compensation Plan

The District Library has an IRC Section 457 deferred compensation pension plan in which all eligible employees may elect to participate. The District Library will match employee contributions up to 2% of gross wages. The amount of employer contributions for the year ended June 30, 2006, was \$7,527.

NOTE E - DEBT

This General Obligation Note Payable was incurred for the purchase of land for the

Loutit District Library

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE E - DEBT - CONTINUED

possible construction of a new library building. It is an unsecured installment note from a bank. The full faith and credit of the District Library is pledged for its repayment.

The installment note activity for the year ended June 30, 2006 can be summarized as follows:

<u>Governmental Activities</u>	<u>Interest Rate</u>	<u>Principal Matures</u>	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2002 Land Installment Note	4.89%	5-01-12	\$651,240	\$(80,253)	\$570,987	\$84,178

Annual debt service requirements to maturity for the above obligation are as follows:

<u>Year End June 30</u>	<u>Governmental Activities Principal</u>	<u>Interest</u>
2007	\$ 84,178	\$ 27,921
2008	88,294	23,805
2009	92,612	19,487
2010	97,140	14,959
2011	101,890	10,209
2012-2016	<u>106,873</u>	<u>5,225</u>
Total	<u>\$570,987</u>	<u>\$101,606</u>

NOTE F - INTERFUND OPERATING TRANSFERS

Details of interfund operating transfers at June 30, 2006, are as follows:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Fund</u>	<u>Operating Transfers Out</u>
Capital Projects	\$ 453,048	General	\$ 565,147
Debt Service	<u>112,099</u>		
	<u>\$ 565,147</u>		<u>\$ 565,147</u>

Loutit District Library

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE G - DISTRICT LIBRARY AGREEMENT

The District Library entered into an agreement with local participating municipalities on February 24, 1999. Among other things, the Agreement provides for the District Library to pay the City of Grand Haven an amount equal to the Transfer Value of the Assets (as defined in the Agreement) if the District Library relocates, without City consent, its main library outside the City limits within the next 150 years. This obligation would be funded only on the date on which the District Library transfers its operations out of the City. The amount of the Transfer Value, as determined by formula, is subject to adjustment as of the January 1 preceding the date of relocation. The amount of the Transfer Value was determined to be \$5,734,263 as of June 30, 2006.

NOTE H - DESIGNATED FUND AGREEMENT

The District Library entered into an agreement with the Grand Haven Area Community Foundation on September 25, 2001, whereby the District Library transferred \$2,000 to the Foundation.

The purpose of the District Library establishing this endowment fund was to provide funding for the support of the Loutit District Library.

Distributions may be made only from net appreciation, realized and unrealized, at the request of the District Library Advisory Committee, subject to Foundation approval and certain conditions. The Advisory Committee may also request that a portion or all of the investment return be invested in the Fund. The District Library received a distribution of \$111 from the Endowment Fund during the past fiscal year.

The value of this designated fund was \$3,888 as of June 30, 2006.

The District Library also has a designated fund at the Grand Haven Area Community Foundation, the purpose and use of which is to provide funding for expansion and/or renovation of Loutit District Library. This fund is called the "Loutit District Library Building Fund".

Distributions may be made from Fund income or principal at the request of the Advisory Committee, subject to Foundation approval and certain conditions. The Advisory Committee may also request that a portion or all of the investment return be invested in the Fund. The District Library did not receive any distributions from the Building Fund during the past fiscal year.

The value of this designated fund was \$6,283 as of June 30, 2006.

Loutit District Library

NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2006

NOTE I - CAPITALIZED BOOKS

The District Library generally capitalizes its purchases of Collection materials, with the exception of periodicals, in the Statement of Net Assets. The District Library expended \$134,111 (less \$115,048 capitalized in 2006) and \$130,448 (less \$121,470 capitalized in 2005) for book and magazine purchases for the years ended June 30, 2006 and 2005, respectively.

NOTE J - ACQUISITION OF LIBRARY BUILDING AND LAND

The District Library entered into an agreement with the City of Grand Haven to purchase the library property and building located at 407 Columbus, Grand Haven, Michigan for \$1 and the adjacent parking lot for \$200,000. The closing date was August 24, 2005 and the total purchase price, including closing costs, was \$201,002. The prior lease agreement with the City was terminated simultaneously with the purchase of the property.

The parking lot purchase was classified as land and is not being depreciated. The building and land purchase was recorded as an asset for \$1,400,001, the components of which are as follows:

Purchase price	\$	1
Deemed in-kind contribution		
Building		1,200,000
Land		<u>200,000</u>
		<u>\$1,400,001</u>

The District Library's policy is to recognize, as a contribution, the difference between the purchase price and the fair market value of the asset as of the date of receipt. The estimated fair market value was determined by District Library management to be equivalent to the valuation as determined by a February, 2001 appraisal.

An offsetting increase to Capital Outlay expense in the Capital Projects Fund has also been recorded.

NOTE K - SUBSEQUENT EVENT - PURCHASE OF LAND

The District Library has purchased two additional properties for use as a parking lot, subsequent to the anticipated renovation and addition project for the existing library building. The closing date was July 18, 2006. The purchase prices, including closing costs, were \$553,269 and \$168,503 for a total of \$721,772.

REQUIRED SUPPLEMENTAL INFORMATION

Loutit District Library
Budgetary Comparison Schedule-General Fund
Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenues:				
Property taxes	1,761,755	1,710,325	1,662,700	(47,625)
State grants	17,300	24,450	24,599	149
Interest and rentals	61,000	88,500	89,833	1,333
Contributions	21,500	41,335	29,995	(11,340)
Fines and forfeits	133,500	155,775	156,212	437
Other revenue	3,800	4,575	2,163	(2,412)
TOTAL REVENUES	1,998,855	2,024,960	1,965,502	(59,458)
Expenditures:				
Salaries and wages	644,155	649,235	642,697	6,538
Employee benefits	231,858	219,648	211,222	8,426
Books and magazines	164,490	165,855	134,111	31,744
Library supplies	26,760	40,110	34,451	5,659
Lakeland Library Cooperative	41,590	41,590	40,496	1,094
Equipment maintenance	9,000	9,000	11,308	(2,308)
Buildings and grounds	134,214	135,494	135,887	(393)
Professional fees	15,000	29,900	27,393	2,507
Insurance	18,750	18,750	18,316	434
Telephone	2,400	2,500	2,491	9
Printing and publishing	18,000	18,000	15,247	2,753
Tax collection fees	6,725	6,125	6,113	12
Postage	12,500	12,500	10,579	1,921
Capital outlay	30,075	30,075	28,241	1,834
Professional development	11,700	11,700	9,028	2,672
Memberships and dues	4,845	4,845	4,038	807
Transfers to other libraries	37,360	41,175	39,935	1,240
Miscellaneous	8,290	17,840	15,413	2,427
TOTAL EXPENDITURES	1,417,712	1,454,342	1,386,966	67,376
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	581,143	570,618	578,536	7,918
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	(581,143)	(565,148)	(565,147)	1
Total other financing sources (uses)	(581,143)	(565,148)	(565,147)	1
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	5,470	13,389	7,919
Fund balances - July 1	1,261,812	1,261,812	1,261,812	-
Fund balances - June 30	1,261,812	1,267,282	1,275,201	7,919

The accompanying notes are an integral part of this statement.

Loutit District Library
 Budgetary Comparison Schedule-Capital Projects Fund
 Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenues:				
Contributions	\$ 550	\$ 550	\$ 486	\$ (64)
Contributions - In-kind	-	-	1,400,000	1,400,000
Interest	<u>31,750</u>	<u>31,750</u>	<u>36,566</u>	<u>4,816</u>
TOTAL REVENUES	32,300	32,300	1,437,052	1,404,752
Expenditures:				
Pre-construction costs				
Architectural	-	90,000	85,185	4,815
Legal	5,000	8,000	8,941	(941)
Other	-	3,900	3,900	-
Capital outlay	-	201,002	202,002	(1,000)
Capital outlay - In-kind	-	-	1,400,000	(1,400,000)
Miscellaneous	<u>450</u>	<u>600</u>	<u>121</u>	<u>479</u>
TOTAL EXPENDITURES	<u>5,450</u>	<u>303,502</u>	<u>1,700,149</u>	<u>(1,396,647)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	26,850	(271,202)	(263,097)	8,105
Other financing sources (uses)				
Operating transfers in	<u>469,043</u>	<u>453,048</u>	<u>453,048</u>	<u>-</u>
Total other financing sources (uses)	<u>469,043</u>	<u>453,048</u>	<u>453,048</u>	<u>-</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	495,893	181,846	189,951	8,105
Fund balances - July 1	<u>1,074,886</u>	<u>1,074,886</u>	<u>1,074,886</u>	<u>-</u>
Fund balances - June 30	<u><u>\$1,570,779</u></u>	<u><u>\$1,256,732</u></u>	<u><u>\$1,264,837</u></u>	<u><u>\$ 8,105</u></u>

The accompanying notes are an integral part of this statement.

Loutit District Library
 Budgetary Comparison Schedule-Debt Service Fund
 Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance With Amended Budget
Revenues:	\$ -	\$ -	\$ -	\$ -
TOTAL REVENUES	-	-	-	-
Expenditures:				
Principal on note	80,254	80,254	80,253	1
Interest expense	31,846	31,846	31,846	-
TOTAL EXPENDITURES	112,100	112,100	112,099	1
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(112,100)	(112,100)	(112,099)	1
Other financing sources (uses)				
Operating transfers in	112,100	112,100	112,099	(1)
Total other financing sources (uses)	112,100	112,100	112,099	(1)
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	-	-	-	-
Fund balances - July 1	-	-	-	-
Fund balances - June 30	-	-	-	-

The accompanying notes are an integral part of this statement.

CALVIN D. MEEUSEN, C.P.A., PLLC
CALVIN D. MEEUSEN
CERTIFIED PUBLIC ACCOUNTANT

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September 26, 2006

Members of the Library Board
Loutit District Library
Grand Haven, Michigan

In connection with my examination of the balance sheet/statement of net assets of the Loutit District Library as of June 30, 2006 and the related statements of revenues, expenditures and fund balances/activities for the year then ended, I have reviewed the accounting policies and procedures employed by the District Library and the internal controls in effect. As a result of this review, I wish to make certain comments and recommendations.

I have examined the financial statements of the Loutit District Library for the year ended June 30, 2006, and have issued my report thereon dated September 26, 2006. As part of my examination, I made a study and evaluation of the system of internal accounting control of the Loutit District Library to the extent I considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office "Standards for Audit of Governmental Organizations, Programs, Activities and Functions". The purpose of my study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the entity's financial statements. My study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

The management of the Loutit District Library is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting procedures.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

My study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, I do not express an opinion on the system of internal accounting control of the District Library taken as a whole. However, I noted certain matters that I consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or

operation of the internal control structure that, in my judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The reportable condition is that an adequate internal control structure does not exist for reliance thereon because of the small size of the entity resulting in a lack of segregation of duties due to the limited number of accounting personnel.

I do not believe that the reportable condition is a material weakness.

I commented on a reportable condition in my letter of last year in regards to the lack of a requirement to have passwords to gain access to the accounting software program. This condition has been corrected. Passwords are in place and only selected District Library management have access to them.

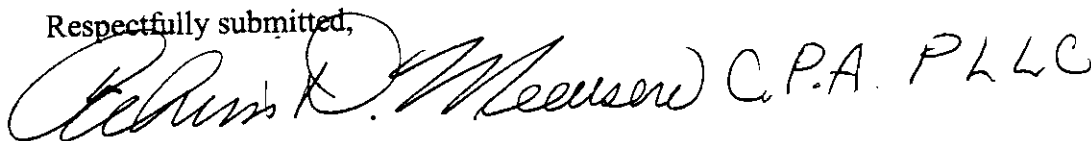
This report is intended solely for the use of management and the State of Michigan, Michigan Department of Treasury, and should not be used for any other purpose.

The size of the District Library's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Library Board continue to take an active role in the financial affairs of the District Library to provide oversight and independent review functions.

A budget is required by the State Constitution and by the State Statutes and is the only basis for spending. A local unit cannot budget expenditures in excess of anticipated revenues nor can it overspend its adopted budget unless a change in the budget is approved by the Library Board. The budget has been adopted on a total fund basis by the Library Board. During the past fiscal period, the Library Board overspent in some line items and underspent in others. To the extent possible, the Library Board should amend the budget to cover anticipated deficiencies.

In conclusion, I wish to state that I have had excellent cooperation from all personnel involved in the recordkeeping area and look forward to more of the same from them in the future. These comments and recommendations are intended to be only of a constructive nature as I am sure they will continue to improve your accounting system. I would be available at any time in order to discuss these comments and recommendations.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Calvin D. Meeusen", followed by the text "C.P.A. PLLC" in a similar handwritten style.

Calvin D. Meeusen, C.P.A., PLLC